

October 16, 2001

Mr. William Jews  
Chief Executive Officer  
CareFirst Blue Cross Blue Shield  
10455 Mill Run Circle  
Owings Mills, MD 21117

Dear Bill:

We've said before that Trigon and CareFirst are natural partners, and that the creation of a larger, stronger regional Blue would be in the best interests of customers, providers, and employees in the region. We still believe it – as strongly as ever.

In light of the information we received subsequent to June 22, we have improved certain aspects of our offer as detailed below.

*Form of Consideration* – We propose an aggregate consideration of \$1.3 billion, structured 40% in Trigon common stock, and 60% in cash with no financing contingencies and no walk away. We have retained our prior structure in which the transaction value is preserved, even if the value of Trigon common shares declines as much as 22%. As we previously proposed, should market values of firms in our industry decline beyond that point, we would remain committed to the transaction, but would begin to “share the pain” of the decline in equity values beyond that point.

*Interim Operating Arrangements* – In the interest of advancing discussions, we have put forth more specific language regarding how we might work together between signing and closing to share information on current trends and performance, while laying the foundation for future success. Our intent is to preserve the policies and practices through which you have created CareFirst value to date without unduly constraining your team's ability to keep running your business in a competitive environment.

*Transaction Protection* – Following the precedent of recent banking mergers, we propose a 5% break-up fee. This seems reasonable in light of the magnitude and duration of our commitment, and the degree to which the pursuit of this opportunity forecloses other strategic options.

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We have attached a revised summary of the Key Business Terms of our offer. We have also attached a black line copy of the Definitive Agreement detailing our proposed changes to your August draft. We would be pleased to discuss our proposed changes with you and your advisers. We think our offer is full and in the best interests of the policyholders and stakeholders of both firms. We hope that you agree and think it appropriate to sit down and work out the final details of an agreement with Trigon. We look forward to working with you make this deal happen.

As we discussed, I would like to meet with you to discuss how best to gain the support and approval of key leaders for a CareFirst conversion and regional health care alliance. Attached is a list of people with whom we might want to clear some ideas before signing a definitive agreement – but I'd like to talk with you first about how best to proceed in this arena.

This letter is not a binding offer or agreement to acquire CareFirst. Any binding agreement must be reflected in a definitive agreement signed by both parties. The terms of this letter are confidential and subject to the Confidentiality Agreement dated September 21, 2000, between Trigon and CareFirst.

Bill, if you have any question regarding our proposal, or thoughts on how we get this done, please call me directly.

Sincerely,

Attachment:  
Revised Summary of Key Business Terms  
Definitive Agreement  
List of Leaders

cc: Stuart Smith  
Isaac Neuberger

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